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If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in **Medical China Limited**, you should at once hand this circular to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.



MEDICAL CHINA LIMITED

神州醫療科技有限公司*

(Incorporated in Bermuda with limited liability)

(Stock code: 8186)

DISCLOSEABLE TRANSACTION

Disposal of Entire Equity Interest in Tat Lung Shenzhen

This circular will remain on the “Latest Company Announcement” page of the GEM website at <http://www.hkgem.com> for at least 7 days from the date of its posting.

* *For identification purpose only*

CHARACTERISTICS OF GEM

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the main board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website at <http://www.hkgem.com> in order to obtain up-to-date information on GEM-listed issuers.

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DEFINITIONS

In this circular, the following expressions shall have the following meanings unless the context requires otherwise:

“Board”	the board of directors of the Company
“Company”	Medical China Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on the GEM
“connected person”	has the meaning as defined in the GEM Listing Rules
“Directors”	the directors of the Company
“Disposal”	the sale of the Equity Interest by Tat Lung HK to Ms. Wang
“Equity Interest”	all the equity interest in the registered capital of Tat Lung Shenzhen registered in the name of Tat Lung HK
“Equity Transfer Agreement”	the agreement entered into between Tat Lung HK and Ms. Wang on 20 December 2004 in respect of the Disposal
“GEM”	the Growth Enterprise Market of the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on the GEM
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong Dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region, PRC
“Latest Practicable Date”	14 January 2005, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information for inclusion in this circular
“Ms. Wang”	Ms. Wang You Ling, an individual who has agreed to purchase the Equity Interest under the Equity Transfer Agreement
“PRC”	the People’s Republic of China

DEFINITIONS

“RMB”	Renminbi, the lawful currency of PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shares”	ordinary share(s) of HK\$0.01 each in the share capital of the Company
“Shareholders”	shareholders of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Tat Lung HK”	Tat Lung Medical Treatment Technology Limited, an indirect wholly-owned subsidiary of the Company and an investment holding company incorporated in Hong Kong with limited liability
“Tat Lung Shenzhen”	達隆醫療科技（深圳）有限公司（Tat Lung Medical Treatment Technology (Shenzhen) Limited*), a wholly-owned subsidiary of Tat Lung HK and an indirect wholly-owned subsidiary of the Company and a company registered and established in Shenzhen, the PRC with limited liability in 2000
“Tat Lung Technology”	達隆醫學技術（深圳）有限公司（Tat Lung Medical Technology (Shenzhen) Limited*), a wholly-owned subsidiary of the Company and a company established in Shenzhen, the PRC with limited liability in 2003

Conversion of RMB to HK\$ is based on the exchange rate of RMB1.06 = HK\$1.00.

* For identification purpose only

LETTER FROM THE BOARD



MEDICAL CHINA LIMITED

神州醫療科技有限公司*

(Incorporated in Bermuda with limited liability)

(Stock code: 8186)

Executive Directors:

Li Nga Kuk, James

Li Wo Hing

Li Tai To, Titus

Non-Executive Directors:

Chen Minshan

Independent Non-Executive Directors:

Guo Guoqing

Fan Wan Tat

Tam Wai Leung, Joseph

Registered Office:

Canon's Court

22 Victoria Street

Hamilton HM 12

Bermuda

Head Office and

Principal Place of Business:

Office B

21st Floor

Teda Building

87 Wing Lok Street

Hong Kong

14 January 2005

To the Shareholders

Dear Sir or Madam

DISCLOSEABLE TRANSACTION

1. INTRODUCTION

Reference is made to the announcement of the Company dated 23 December 2004.

On 20 December 2004, Tat Lung HK, which is the wholly-owned subsidiary of the Company, entered into the Equity Transfer Agreement with Ms. Wang pursuant to which Tat Lung HK agreed to sell the Equity Interest in Tat Lung Shenzhen, a wholly-owned subsidiary of Tat Lung HK, to Ms. Wang.

Pursuant to the Equity Transfer Agreement, the consideration of the Disposal is in the sum of HK\$5,000,000. The transfer of the Equity Interest has been completed, Tat Lung Shenzhen is now wholly-owned by Ms. Wang and has ceased to be a wholly-owned subsidiary of Tat Lung HK and an indirect wholly-owned subsidiary of the Company.

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The terms of the Equity Transfer Agreement were negotiated on an arm's length basis with reference to the unaudited net asset value of Tat Lung Shenzhen as at 1 December 2004. The Directors consider that the terms of the Equity Transfer Agreement are fair and reasonable and the Disposal is in the interest of the Group and the Shareholders as a whole.

The Company confirms that to the best of the knowledge, information and belief of the Board and the board of Tat Lung HK having made all reasonable enquiries, Ms. Wang is a third party independent of the Company and connected persons of the Company.

The Disposal constitutes a discloseable transaction of the Company under the GEM Listing Rules. The purpose of this circular is to provide you with information on the Disposal in compliance with the GEM Listing Rules.

2. EQUITY TRANSFER AGREEMENT

Date

20 December 2004

Parties

- (1) Vendor: Tat Lung HK
- (2) Purchaser: Ms. Wang

The Company confirms that to the best of the knowledge, information and belief of the Board and the board of Tat Lung HK having made all reasonable enquiries, Ms. Wang is a third party independent of the Company and connected persons of the Company. Save and except for being the Purchaser under the Equity Transfer Agreement, Ms. Wang has no previous business dealings with the Group or its connected persons. The Company understands that Ms. Wang is a merchant carrying on business in the PRC.

Disposal

Pursuant to the Equity Transfer Agreement, Tat Lung HK, which is the wholly-owned subsidiary of the Company, agreed to sell the Equity Interest in Tat Lung Shenzhen, a wholly-owned subsidiary of Tat Lung HK, to Ms. Wang and Ms. Wang agreed to purchase the Equity Interest from Tat Lung HK.

LETTER FROM THE BOARD

Consideration

The consideration of the Disposal was HK\$5,000,000. Under the Equity Transfer Agreement, the consideration was to be paid in cash or via the transfer of funds into bank account within 20 days from the date thereof. Ms. Wang had fully paid the consideration in the amount of HK\$5,000,000 to Tat Lung HK on 30 December 2004 as required by the Equity Transfer Agreement. The consideration was determined after arm's length negotiations between Tat Lung HK and Ms. Wang with reference to the unaudited net asset value of Tat Lung Shenzhen as at 1 December 2004.

As at 1 December 2004, the unaudited net asset value of Tat Lung Shenzhen approximately amounted to RMB5,307,750 (approximately equivalent to HK\$5,007,311). The consideration under the Equity Transfer Agreement, which was in the sum of HK\$5,000,000, is about the same as the unaudited net asset value of Tat Lung Shenzhen and equals to the investment cost of Tat Lung HK towards Tat Lung Shenzhen.

As at 1 December 2004, approximately 95% of the assets of Tat Lung Shenzhen consist of the trade receivables and other receivables, and the remaining asset of Tat Lung Shenzhen is cash. Approximately 45% of the liabilities of Tat Lung Shenzhen consist of other payables and approximately 54% of the liabilities of Tat Lung Shenzhen is tax payables. The trade receivables represent all trading receivables generated by the business operation carried out by Tat Lung Shenzhen for the period from 1 January 2004 to 30 November 2004. The other receivables represent non-trading loans, advances created or made by Tat Lung Shenzhen to debtors other than trade related debtors (such as corporate members of the Group). The other payables represent non-trading debts of Tat Lung Shenzhen due to creditors other than trade related creditors (such as service providers and utilities companies). The tax payables represent the tax payable by Tat Lung Shenzhen to the tax authorities in the PRC. The other payables and tax payables are disposed of with Tat Lung Shenzhen.

As the assignments and transfers of the trade receivables and some other receivables are subject to the consents or approvals of various third party debtors and/or the relevant governmental authorities, such consents or approvals are difficult to procure or obtain. Invoices for the trade receivables were issued to the relevant debtors. The debtors are very reluctant to accept any change in the invoices. Such change in invoices may be in breach of the laws of the PRC without consent of the relevant governmental or other authorities of PRC. However, disposal of the trade receivables under the Disposal is not subject to any consent or approval of any PRC governmental or other authorities. So the trade receivables and other receivables are not transferred to Tat Lung Technology and are disposed of with Tat Lung Shenzhen and the credit risks associated with such receivables are transferred to Ms Wang (without recourse to Tat Lung HK and the Company) upon completion of the Equity Transfer Agreement.

The trade payables (representing the trading payables to vendors and suppliers created by the business operation carried out by Tat Lung Shenzhen for the period from 1 January 2004 to 30 November 2004) have been transferred to Tat Lung Technology by way of novation with consents of all the relevant creditors. As such those trade payables are in the name of Tat Lung Technology and not in Tat Lung Shenzhen.

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From 1 December 2004, the assets and businesses previously carried out by Tat Lung Shenzhen were taken over by Tat Lung Technology. As such all trade receivables and trade payables of such businesses from 1 December 2004 are under Tat Lung Technology.

No prior approval of relevant PRC governmental or other authority is required for the Disposal (including trade receivables, other receivables and cash, and other payables and tax payables as mentioned above) contemplated by the Equity Transfer Agreement, though there were some administrative approvals and registration procedures to follow so as to complete the formalities of the Disposal. In late December 2004, such administrative approvals and registration procedures were completed. Upon the full payment of the consideration and the completion of the said approvals and procedures, the Equity Interest in Tat Lung Shenzhen has been transferred from Tat Lung HK to Ms. Wang, and Tat Lung Shenzhen has ceased to be the wholly-owned subsidiary of Tat Lung HK and the indirect wholly-owned subsidiary of the Company. As at the Latest Practicable Date, Tat Lung HK has completed the sale of the Equity Interest in Tat Lung Shenzhen to Ms. Wang and does not hold any Equity Interest in Tat Lung Shenzhen.

Reason for and benefit of entering into the Equity Transfer Agreement

In the period from about or around November 2003 to 30 November 2004, the Group has undergone a corporate restructuring whereby the businesses carried out, all business contracts concluded by Tat Lung Shenzhen and all medical equipment were transferred and assigned to Tat Lung Technology, a wholly-owned subsidiary of the Company, upon the necessary consents of the third parties concerned. Such transfers and assignments completed on 30 November 2004. Since then, Tat Lung Shenzhen has ceased to carry on any business for the Group. As at the Latest Practicable Date, Tat Lung Shenzhen is no longer one of the main business arms of the Group as stated in the Third Quarterly Report 2004 of the Company and Tat Lung Technology, having acquired the businesses, the business contracts and medical equipment of Tat Lung Shenzhen, becomes one of the key business arms of the Group.

As all the businesses of the Group previously carried out and conducted through Tat Lung Shenzhen have been transferred and assigned to Tat Lung Technology and remain in and are retained by the Group, the Directors do not expect there is any material change in the profits and revenue of the Group as a result of the Disposal.

To simplify the corporate structure of the Group and realize the investment cost (i.e. registered capital of Tat Lung Shenzhen paid by the Group in the sum of HK\$5,000,000) of the Group in Tat Lung Shenzhen, Tat Lung HK has agreed to dispose of the Equity Interest pursuant to the Equity Transfer Agreement. The Directors consider that the terms of the Agreement are fair and reasonable and in the interest of the Shareholders as a whole. As at the Latest Practicable Date, the proceeds from the Disposal, which is in the sum of HK\$5,000,000, are intended for general working capital of the Group. Nonetheless, the Group will look for favourable investment opportunities and make good use of the proceeds where appropriate. Given the fact that (i) the consideration under the Equity Transfer Agreement is about the same as the unaudited net asset value of Tat Lung Shenzhen as at 1 December 2004 and

LETTER FROM THE BOARD

approximately equals to the investment cost of Tat Lung HK towards Tat Lung Shenzhen and (ii) all business carried out by Tat Lung Shenzhen before the above-mentioned corporate restructuring had been transferred and assigned to Tat Lung Technology, the Directors do not expect that (i) there is any gain or loss accrued to the Company or (ii) there is any impact on the earnings and assets and liabilities of the Group. After the Disposal, as at the Latest Practicable Date, Tat Lung HK does not have any investment holding in any company. The Company will disclose details of the above corporate restructuring in its forthcoming annual report for the year 2004.

Discloseable transaction

The Disposal constitutes a discloseable transaction of the Company pursuant to Chapter 19 of the GEM Listing Rules. The purpose of this circular is to provide you with information on the Disposal in compliance with the GEM Listing Rules.

3. INFORMATION ABOUT THE GROUP

The Company is an investment holding company of the Group. The Group is principally engaged in the research, development and provision of medical devices for cancer treatment, including RFAS (a system that employs radio frequency ablation to cause necrosis of targeted tissue by heating it to high temperatures) and 3-dimensional laparoscope, and promotion of sales of anti-cancer drugs in the PRC. At present, the Group provides its assets, being RFAS, for the setting up of cancer treatment centers with the contracted hospitals in the PRC. Tat Lung HK is an investment holding company. Tat Lung Shenzhen only operated for the period from 1 January 2004 to 30 November 2004 and has no operation since 1 December 2004.

Prior to the corporate restructuring mentioned hereinabove, Tat Lung Shenzhen was engaged in the provision of medical equipment and related services to provide technical support for the operation of the medical equipment. For the year ended 31 December 2002, the audited net profits before and after taxation of Tat Lung Shenzhen were approximately RMB37,626,827 (approximately equivalent to HK\$35,497,007) and RMB31,982,803 (approximately equivalent to HK\$30,172,456) respectively. For the year ended 31 December 2003, the audited net profits before and after taxation of Tat Lung Shenzhen were approximately RMB18,976,465 (approximately equivalent to HK\$17,902,325) and RMB16,129,996 (approximately equivalent to HK\$15,216,977) respectively.

Also, prior to the corporate restructuring mentioned hereinabove, Tat Lung Technology, a wholly-owned subsidiary of the Company, was established to focus on various kinds of medical software development. After completion of the said corporate restructuring, Tat Lung Technology, in addition to its existing business, is engaged in businesses previously carried out by Tat Lung Shenzhen as mentioned above.

LETTER FROM THE BOARD

4. ADDITIONAL INFORMATION

Your attention is also drawn to the general information set out in the appendix to this circular.

Yours faithfully,
For and on behalf of the Board
Li Wo Hing
Executive Director

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Group. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:

- (a) the information contained in this circular is accurate and complete in all material respects and is not misleading;
- (b) there are no other matters the omission of which would make any statement in this circular misleading; and
- (c) all opinions expressed in this circular have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

2. DISCLOSURE OF INTERESTS

As at the Latest Practicable Date, the interests or short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the minimum standards of dealing by Directors as referred to in rule 5.46 of the GEM Listing Rules are as follows:

Long position in the Company's shares:

Name of Director	Number of Shares held	Nature of interests	Percentage of interest
Dr. Li Nga Kuk, James	32,800,000	Personal	3.93%
Mr. Li Wo Hing	32,800,000	Personal	3.93%
	212,320,000	Corporate (Notes 1 & 2)	25.43%
Aggregate:	<u>245,120,000</u>	Aggregate:	<u>29.36%</u>

Name of Director	Number of Shares held	Nature of interests	Percentage of interest
Mr. Ng Kwai Sang	32,800,000	Personal	3.93%
	212,320,000	Corporate (Notes 1 & 2)	25.43%
	Aggregate: 245,120,000	Aggregate:	29.36%
Mr. Li Tai To, Titus	16,400,000	Personal	1.96%
Mr. Chan Siu Sun	32,800,000	Personal	3.93%

Notes:

- By a letter of undertaking dated 14 December 2001, Mr. Ng Kwai Sang undertook to grant a right of first refusal to Mr. Li Wo Hing regarding his 5% shareholding in the share capital of People Market Management Limited (“PMM”), which is in turn owned as to 28.57% by Mr. Li Wo Hing. Therefore, Mr. Li Wo Hing is deemed to be interested in 212,320,000 shares held directly by PMM.
- 212,320,000 shares are owned by PMM, which is in turn owned as to 35.71% by Mr. Ng Kwai Sang. Details of the interest of PMM in these shares are also set out in the paragraph headed “Substantial Shareholders” below.

All the interests stated above represent long position. Save as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which are required:

- to be notified to the Company and the Stock Exchange pursuant to Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of SFO);
- pursuant to section 352 of the SFO, to be entered in the register referred to therein; or
- to have been notified to the Company and the Stock Exchange pursuant to the minimum standards of dealing by Directors as referred to in rule 5.46 of the GEM Listing Rules.

3. SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, so far as is known to the Directors or chief executive of the Company, the following persons (other than a Director or chief executive of the Company) had an interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO:

Name of Substantial Shareholder	Number of Shares held	Capacity	Percentage of interest
PMM (<i>Note</i>)	212,320,000	Beneficial owner	25.43%
China Equity Associates L.P.	85,200,000	Beneficial owner	10.20%

Note: As at the Latest Practicable Date, PMM owned 212,320,000 Shares, representing approximately 25.43% of the issued share capital of the Company. The issued share capital of PMM is owned as to 35.71% by Mr. Ng Kwai Sang, as to 28.57% by Mr. Li Wo Hing, as to 17.86% by Dr. Li Nga Kuk, James, as to 8.93% by Mr. Li Tai To, Titus and as to 8.93% by Mr. Li Yue Erh. Mr. Ng Kwai Sang and Mr. Li Wo Hing's indirect interests in these 212,320,000 shares through PMM are also disclosed in the paragraph headed "Disclosure of interests".

Save as disclosed above, as at the Latest Practicable Date, so far as is known to any Director or chief executive of the Company, no other person (other than a Director or chief executive of the Company) had an interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO.

4. COMPETING INTERESTS

As at the Latest Practicable Date, so far as the Directors are aware of, none of the Directors, management shareholders or substantial shareholders of the Company or any of their respective associates has engaged in any business which competes or may compete with the business of the Group, or has any interests which conflict with the Group.

5. LITIGATION

As at the Latest Practicable Date, no member of the Group was engaged in any litigation or claims of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened against any member of the Group.

6. SERVICE CONTRACT

As at the Latest Practicable Date, the independent non-executive Directors have entered into a service contract with the Company. Both Mr. Guo Guoqing and Mr. Fan Wan Tat have entered into a service contract with the Company for a term of two years commencing on 1 December 2003. The service contract of Mr. Tam Wai Leung, Joseph is for a term of one year commencing on 30 September 2004.

Save as mentioned hereinabove, as at the Latest Practicable Date, none of the Directors had entered into or proposed to enter into any service contracts with any member of the Group (excluding contracts expiring or determinable by the Company within one year without payment of compensation, other than statutory compensation).

7. GENERAL

- (a) The registered office of the Company is situated at Canon's Court, 22 Victoria Street, Hamilton HM 12, Bermuda.
- (b) The head office and principal place of business of the Company in Hong Kong is Office B, 21st Floor, Teda Building, 87 Wing Lok Street, Hong Kong.
- (c) The compliance officer of the Company is Mr. Li Wo Hing, MBA, an executive Director.
- (d) The Secretary of the Company is Mr. Wong Hon Sum who is a fellow of the Hong Kong Society of Accountants.
- (e) The qualified accountant of the Company is Mr. Ling Chun Kwok, Alfred who is an associate member of the Hong Kong Society of Accountants and a member of the Association of Chartered Certified Accountants.
- (f) The Company has established an audit committee ("Committee") with written terms of reference which deals with its authority and duties. The Committee's primary duties are to review and to supervise the financial reporting process and internal control systems of the Group and to provide advice and comments to the Directors. As at the Latest Practicable Date, the Committee comprises three independent non-executive Directors, namely Mr. Guo Guoqing, Mr. Fan Wan Tat and Mr. Tam Wai Leung, Joseph. Mr. Fan Wan Tat is the chairman of the Committee.

Mr. Guo Guoqing is the president of Commercial College, Zhongguo Renmin University.

Mr. Fan Wan Tat is a medical doctor in Hong Kong.

Mr. Tam Wai Leung, Joseph is currently the President to the Executive Committee of the Hong Kong Institute of Business Management Ltd. and the Macau Association of Higher Education. He holds a Doctor of Philosophy degree from Preston University, U.S.A. and is a fellow member of the Institute of Cost and Executive Accountants in U.K. and the Association of Taxation and Management Accountants in Australia. In the past 3 years, Mr. Tam has not held any directorship in any listed company and has not previously held any position with the Company or its subsidiaries.

- (g) The branch share registrar and transfer agent of the Company in Hong Kong is Computershare Hong Kong Investor Services Limited, at 46th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong.

- (h) In the event of any inconsistency, the English language text of this circular shall prevail over the Chinese language text.